

MEMORANDUM OF UNDERSTANDING
between
INTERNAL REVENUE SERVICE
and

LIMITED ISSUE FOCUSED EXAMINATION (LIFE)

_____, hereinafter referred to as “the Taxpayer,” and the Internal Revenue Service (IRS) desire to enter into this Memorandum of Understanding (MOU) for a Limited Issue Focused Examination (LIFE). The Taxpayer and IRS have indicated their good-faith intentions to work diligently towards the timely completion of a LIFE examination.

In the mutual spirit of accomplishing these objectives, the IRS will share the initial scope prepared for the examination of this (these) return(s). Based upon the following understandings and agreements, the IRS will limit the scope of the examination to the issues identified in the attached listing. Any expansion of scope will require approval of the team manager.

(A) Periods to be Examined and Targeted Timeframe

This LIFE MOU will cover the examination of the following returns:

Form _____ Period(s) Ending _____

The examination will commence on _____ with the expectation that any Revenue Agents' Report will be issued on or before _____.

(B) Improved Understanding of Industry Practices, Business Events and Transactions, Tax Records, Return Preparation Process

The Taxpayer should provide the IRS with an orientation to include items such as: overview of the industry, company structure, financial performance, accounting records, significant events or transactions occurring during the periods under examination, flow of relevant information from divisions and subsidiaries into the return preparation process, and other information that would facilitate the audit process. The Taxpayer should provide workpapers and supporting documentation for selected transactions, accounts and/or Schedule M items.

The IRS should provide the Taxpayer with a listing of the identified accounts, transactions and/or Schedule M items that are expected to be examined by _____ so that they may be included in the briefing provided by the Taxpayer.

MEMORANDUM OF UNDERSTANDING
Internal Revenue Service and _____

(C) Schedules of Agreed Rollover and Recurring Adjustments

The Taxpayer will provide the IRS with schedules and computations for all agreed rollover and recurring adjustments from any previously examined periods, including the impact of any closing agreements executed between the Taxpayer and IRS. These items should be provided within _____ days of the formal opening conference.

(D) Establishing and Adhering to Materiality Thresholds

The IRS has determined that materiality thresholds for items to be included in the examination plan are appropriate in certain areas and has preliminarily set them as follows:

The following transactions or types of transactions will not be subject to a materiality threshold: tax shelters, Coordinated Issues, fraudulent items, and items contrary to public policy.

In recognition of the reduced scope of the LIFE examination, the Taxpayer agrees not to file claims or affirmative issues below the above thresholds for the period(s) under examination.

Although every attempt should be made to adhere to the materiality thresholds, both sides reserve the right to correct obvious computational or accounting errors, omissions, or other corrections if specific circumstances so warrant and both parties agree.

Both parties recognize that the materiality thresholds set for this cycle or tax period cannot be automatically utilized in another cycle or tax period.

The IRS may conduct testing of the Taxpayer's accounting practices and policies. Results of this testing may impact the materiality threshold(s) and scope of the examination as originally established. The IRS will provide advanced notice of these testing areas.

If a non-disclosed abusive tax shelter or listed transaction is discovered during the course of the examination, the IRS will expand the scope of the examination to include the issue.

(E) Identification of Claims and Affirmative Issues

Any claims or affirmative issues exceeding the materiality threshold established in D

above must be submitted within_____ days of the formal opening conference. All claims and affirmative issues will be accompanied with supporting documentation.

(F) Communication

Communication is a key factor to the successful completion of a LIFE examination. In recognition of this, the Taxpayer and the IRS will schedule regular _____ meetings to discuss the status of the examination and to resolve any problems being encountered.

(G) Information Document Request (IDR) Management Process

The IRS and the Taxpayer recognize that it is generally beneficial to discuss requests for information before a formal IDR (Form 4564) is issued. Therefore, both the IRS and the Taxpayer will make a concerted effort to meet and discuss the purpose of the request, the specific records required, correct terminology and any other recommendations the Taxpayer has to satisfy the request efficiently and effectively.

All IDRs will contain a notation showing the due date of the IDR response. Unless the examiner and the Taxpayer agree on a specific date for answering a particular IDR, all IDRs will be due within_____ days of the issuance.

The IRS should timely review IDR responses for completeness and discuss with the Taxpayer, if necessary.

The provisions of the IRS's IDR Management Process, Internal Revenue Manual (IRM Part 4, Chapter 45, Section 13), will be adhered to.

(H) Resolution of Notice of Proposed Adjustments – Form 5701 (NOPA)

IRS and the Taxpayer recognize that both parties benefit from meaningful discussions of facts and technical positions prior to the issuance of a NOPA (Form 5701). The IRS and the Taxpayer will endeavor to engage in discussions for the purpose of resolving factual or technical misunderstandings.

The IRS will issue NOPA(s) as soon as the IRS develops reasonable grounds establishing that a proposed adjustment is in order.

The Taxpayer agrees to respond to all NOPA(s) within_____ days of issuance and will indicate agreement or disagreement with the proposed adjustment and state the reasons why. All relevant facts and legal arguments will be provided to support the Taxpayer's position on the issue.

IRS and the Taxpayer recognize the benefit of resolving issues at the earliest opportunity by exploring the use Alternative Dispute Resolution tools. These include Appeals Fast Track, Accelerated Issue Resolution (AIR) Agreements, and Early Referral to Appeals.

MEMORANDUM OF UNDERSTANDING
Internal Revenue Service and _____

(I) Termination of the LIFE Process

The LIFE process is a mutual undertaking and requires a great deal of cooperation and commitment by both parties. Significant or consistent failures by either party to adhere to the agreements set forth in this MOU may result in termination of the LIFE process.

Such failures include, but are not limited to:

- 1) IDR response times
- 2) Failure to enter into issue resolution discussions timely after responding to a NOPA
- 3) Filing Claims below the materiality threshold or the filing of claims without supporting documentation
- 4) Failure by either party to adhere to other specific agreements included in this MOU
- 5) Failure to disclose an abusive tax shelter or listed transaction

Termination of this agreement may result in reversion to a traditional broad-based examination based upon the initial risk analysis. This may not only alter the scope of the issues/items examined, but may also change the estimated completion date of the examination.

The undersigned representatives of the Taxpayer and IRS hereby indicate their mutual agreement to the objectives and procedural guidelines established herein. It is understood by both parties that this document is intended to govern the conduct of the examination, but is not a legally enforceable agreement.

Signature and date:

LMSB Team Manager
Internal Revenue Service

MEMORANDUM OF UNDERSTANDING

Internal Revenue Service and _____

Instructions for Completing the MOU

General Information

This MOU will apply only to the taxpayer named and will cover only the return(s) listed in section A. Neither the LMSB team, nor the Taxpayer, may change any of the provisions or language specified in this Memorandum of Understanding. Only the blank spaces may be filled in as indicated below. Any change in the language could serve to eliminate consistency in the application of the process to designated LIFE examinations

Document Header

Insert the Taxpayer's name.

Introduction:

Paragraph 1: Enter the name of the taxpayer.

Section (A) - Periods to be Examined and Targeted Timeframes:

Enter the return form and tax period(s), to be covered by this MOU. This could be a Corporate Income Tax Return, a Partnership Return, or other entity. You may not mix legal entities, but may include multiple tax periods. A consolidated subsidiary would be considered the same legal entity as its parent.

Enter commencement and RAR expected dates in MM/DD/YYYY format.

Section (B) – Improved Understanding of Industry Practices....

Enter the agreed date

Section (C) - Schedules of Agreed Rollover and Recurring Adjustments:

Enter the agreed upon number of days.

Section (D) - Establishing and Adhering to Materiality Thresholds:

Insert language (or indicate there is an attachment) describing the materiality thresholds you have established for selection of issues to be included in this examination.

Examples:

Permanent Tax Changes - The selection of tax return line items, transactions or events for detailed examination will be limited to those that exceed \$XX.

Short Term Timing Tax Changes - (deferral/acceleration of an item covering two to four years) The selection of tax return line items, transactions or events for detailed examination that exceed \$XX or more across a two, three or four year time frame.

Long Term Timing –(deferral/acceleration of an item more than four years) The selection of tax return line items, transactions or events for detailed examination that exceed \$XX or more across a period of more than four years.

MEMORANDUM OF UNDERSTANDING

Internal Revenue Service and _____

Credits – Any underlying transaction or event may be selected for examination that, if adjusted, would have an impact of at least \$XX on tax liability.

Another way of stating thresholds might be:

- Income Items exceeding \$XX
- Expense Items exceeding \$XX
- Credits exceeding \$XX
- Balance Sheet accounts exceeding \$XX
- M-1 entries exceeding \$XX

The thresholds must be established based upon the risk analysis and the examiner's professional judgment. The materiality thresholds may be established (or applied) either on the basis of the total consolidated return or any other segment thereof (such as a subsidiary, legal entity, or division within a subsidiary). In some cases it may be appropriate to establish a single threshold to be used for all items.

Section (E) - Identification of Claims and Affirmative Issues:

Enter the agreed upon number of days.

Section (F) - Communication:

Enter the agreed upon frequency and time of regular meetings

Section (G) - Information Document Request (IDR) Management Process:

Paragraph 3: Enter the name of employee designated to receive IDRs for the taxpayer and the number of days for IDR responses.

Section (H) - Resolution of Notice of Proposed Adjustments – Form 5701 (NOPA):

Paragraph 3: Enter the agreed upon number of days.

Signatures:

LIFE MOU must be signed by a responsible corporate officer, TMP, or authorized representative of the taxpayer and the IRS Team Manager.